

PS 8534.08 ADVANCE PAYMENTS



Program Statement

OPI: FPI
NUMBER: 8534.08
DATE: 6/26/2002
SUBJECT: Advance Payments

1. **PURPOSE AND SCOPE.** To establish procedures for maintaining accountability of advance and progress payments Federal Prison Industries (FPI) receives from its customers.

2. **SUMMARY OF CHANGES.** This directive is revised to incorporate changes required due to the implementation of the integrated manufacturing/financial management information system, **Millennium.**

3. **PROGRAM OBJECTIVES.** The expected results of this program are:

a. Cash advances will be classified properly in the appropriate cash and liability accounts in accordance with generally accepted accounting principles.

b. Customer advance payments will be monitored carefully in compliance with established collection procedures.

c. Subsidiary ledgers will be maintained properly to support advance payment balances in the cash and liability accounts.

d. Reporting of advanced funds and related liabilities will be timely and accurate.

4. **DIRECTIVES AFFECTED**

a. **Directive Rescinded**

PS 8534.06 Advance Payments - FPI (Cash Management)
(10/26/99)

b. Directives Referenced

PS 8000.01 UNICOR Corporate Policy and Procedures
(5/13/81)
PS 8340.07 Quality Program Manual - FPI (1/14/00)
PS 8534.05 Cash Reporting (3/19/99)

Federal Acquisition Regulations (FAR)
Treasury Financial Manual (TFM), Volume 1

5. STANDARDS REFERENCED. None**6. DEFINITIONS**

a. **Advance Payments.** Payments made to FPI by customers before costs are incurred on a corresponding contract.

b. **Progress Payments.** Payments the customer makes to FPI after costs (generally raw material costs) have been incurred on a contract. Generally, progress payments are advanced and liquidated at a pre-determined rate, usually based upon the product's selling price.

c. **Military Interdepartmental Purchase Request (MIPR).** The Department of Defense (DOD) uses the Military Inter-Agency Purchase Request (MIPR) form (DD448), to obligate funds.

Depending upon its contents, the MIPR may be used to place orders and approve the transfer of funds to other agencies.

A MIPR specifies:

C the purpose for which the funds are to be used;
C the appropriation code;
C the contact name, address, phone and fax number; and
C when applicable, the authorization for transferring the funds.

If DOD approves, funds will be collected in advance either by:

C a Voucher and Schedule of Withdrawals and Credits
(SF-1081),
C Statement of Transactions (Treasury 224),
C On-Line Payment and Collection (OPAC), or
C by check.

- In lieu of the MIPR, DOD agencies may use an Interagency Cost Reimbursement Order (IACRO) to obligate funds and advance payments.

d. **Partial Payments.** Payments made to FPI for supplies and services accepted by the customer which satisfy only a part of the contract requirements.

7. **PROGRESS PAYMENTS.** Progress payments are made under the general guidance of FAR Subpart 32.5, Progress Payments Based on Costs.

Although the terms "progress payment" and "advance payment" have been used synonymously, they are distinct in their applications.

The Business Office at the particular field location to which the associated customer order is assigned manages all progress payments.

The Business Manager must request the progress payment in accordance with the terms outlined in the customer contract/order. As progress payments are received a liability is established using the account 231010 (Progress Payable).

As goods are shipped to the customer, the Progress Payable account is reduced in accordance with the terms outlined in the customer contract/order.

8. **ADVANCE PAYMENT CRITERIA.** In accordance with the statutory authority cited in the Federal Acquisition Regulation (FAR), Subpart 32.4, Advance Payments, customer contracting officers have discretion to determine whether to include Advance Payment clauses in a contract.

- When negotiating contracts with customers, FPI Marketing/Program Management staff must request advance payments for all orders of \$500,000 or more.

Partial payments are authorized in paragraph (d) of FAR Subpart 32.102, Description of Contract Financing Methods. FPI Marketing/Program Management staff are to request a Partial Payments clause when negotiating customer contracts.

Partial payments are paid at the full value of the items the customer received.

The following criteria for obtaining advances apply to FPI:

a. Federal statutes require that advance payments will not exceed the unpaid contract price and that the advances must be in the public interest or facilitate the national defense.

b. The advance payments must not exceed FPI's interim cash needs based on the cash flow required for contract performance.

c. Advance payments must be the most advantageous contract financing method for both the Government contracting agency and FPI.

d. FPI will request an advance payment even if the contract does not contain an advance payment provision. However, the customer is not required to approve the request.

9. APPROVAL AND COLLECTION OF ADVANCE PAYMENTS. The customer agency must authorize all advance payments before invoicing and collection, regardless of whether an MIPR or purchase order is used to obligate the funds.

- All advance fund authorizations are forwarded to the Deputy Controller over the Accounts Receivable Section, at FPI Lexington and collected by that office.

a. **MIPRs.** When authorizing advance payment, DOD agencies generally use the MIPR. All MIPRs are to be forwarded to the Deputy Controller over the Accounts Receivable Section, at FPI Lexington whether received in the field or in Central Office.

If not already authorized, the Deputy Controller, Central Accounts Receivable (CAR), Lexington, Kentucky, must request an advance on all MIPRs in excess of \$100,000. Upon receiving the MIPR, the Deputy Controller, CAR must review and sign the MIPR and, if advance payment is authorized, initiate invoicing and collection procedures in accordance with FPI and U.S. Treasury directives.

b. **Non-MIPR Advance Payments.** Other federal agencies may use contracts and/or purchase orders to authorize advance payments.

FPI Customer Service Staff, Sales/Marketing staff, and Program Management staff will review all incoming contracts/orders for advance payment authority.

The Deputy Controller, CAR will be notified immediately if the order authorizes advance payment but there is nothing to indicate that collection procedures have been initiated.

Upon receiving the authorization for advance payment from a customer, the Deputy Controller, CAR will initiate invoicing and collection procedures in accordance with FPI and U.S. Treasury directives.

10. **ACCOUNTING FOR RECEIPT OF ADVANCE FUNDS.** The Accounts Receivable Section is to maintain accountability for all advance funds in FPI except for those advances associated with progress payments.

Accounts Receivable Section staff are to establish liability for all advance payments received using the Advances Payable account (account 231000).

- Advance payments are recorded in the appropriate cash account or the Cash Advance account (account 114000).
- Cash advances of less than \$1 million are recorded as Cash-Receipts (account 111000 or 111030) depending on the way the cash was received. Cash advances of \$1 million or more are recorded as Cash Advances (account 114000).

11. **LIQUIDATION OF ADVANCES.** The **Millennium** system will liquidate the Advance Payable automatically as invoices are generated for goods and services shipped against corresponding customer contracts that have been prepaid with advance payments.

12. **AUDIT AND REFUND OF ADVANCE BALANCE.** The Deputy Controller, CAR or designee, is responsible for:

- C Reviewing all activity in the Advance Payables account monthly;
- C Notifying customers of any advance payment balances that have been inactive for more than 12 months;
- C Performing an audit of any advance payment balance that has been inactive for more than 24 months including a review of orders, shipping information in the **Millennium** database, and disbursements of advance payments.

If, upon completion of the audit, the advance payment balance is found to be accurate, the Deputy Controller, CAR or designee, must contact the customer to obtain disposition instructions for the advance payment balance. The customer will be afforded the opportunity to purchase more goods and services with the funds remaining in his or her advance payment.

/s/

Kathleen Hawk Sawyer
Director